



Journeying forward: advances in railway rolling stock

SPOT ON | RAIL ROLLING STOCK | JUNE 2024

“In 2023, the rail sector continued to experience robust M&A activity, driven by the imperative for economies of scale. A dynamic competitive landscape spurred consolidation as companies sought to strengthen their positions. The appetite for high-quality assets remains high among both financial investors and strategic acquirors across various rail segments. Leveraging our expertise, Oaklins’ rail specialists possess an in-depth understanding of how to strategically position companies to maximize their value upon exit.”

SÉBASTIEN NADEAU
RAIL ROLLING STOCK SPECIALIST
OAKLINS

SPOTLIGHT

The appeal of railtech

A closer look at M&A activity in a segment that has garnered the interest of both strategic and financial acquirors.

03

MARKET TRENDS

Market liberalization in Europe

EU liberalization of the rail market is fostering competition and potentially increasing demand for new rolling stock or the leasing of existing vehicles.

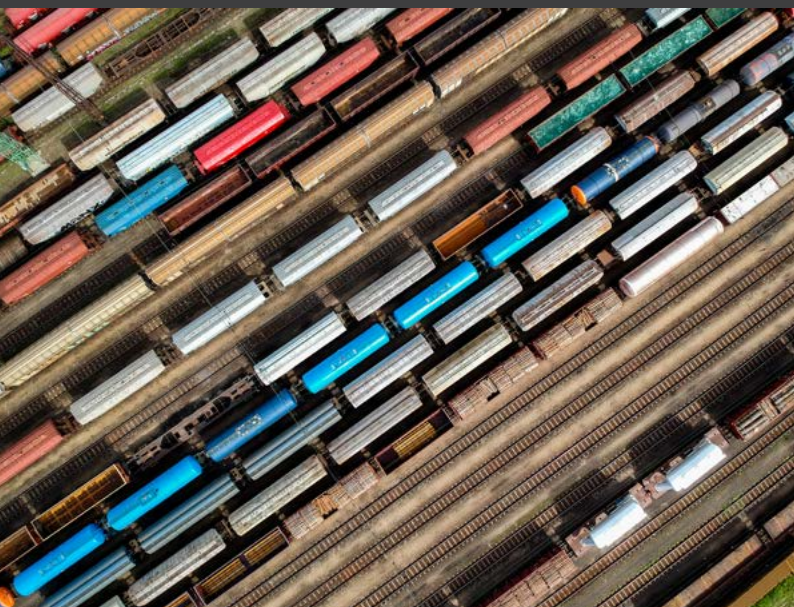
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INDICATIVE VALUATION

Comparing public companies

A look at the valuation multiples of publicly traded rail manufacturing companies from around the world.

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Market overview

Strong industry tailwinds have led to steady growth across rolling stock segments and stable M&A activity around the world.

The global rolling stock market is expected to experience growth through 2030. Projections suggest that its value could rise from US\$57 billion in 2023 to US\$70–79 billion by 2030, with a compound annual growth rate (CAGR) ranging from 4.2% to 6.0%.

The rolling stock sector is characterized by its high level of concentration, with 20 companies accounting for 80% of yearly sales in the global rolling stock supply industry.

In passenger rail, high-speed services has been the fastest-growing segment, and this trend is expected to continue with the expansion of rail networks in Europe and the Asia-Pacific region.

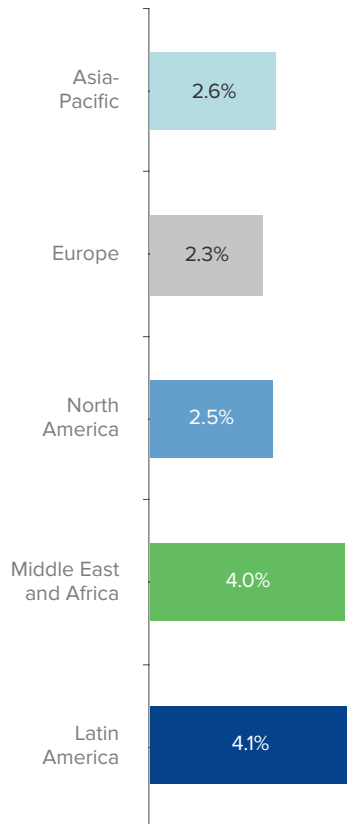
In freight rail, there's a trend toward specialized wagons, such as those designed for transporting refrigerated

and perishable goods, or tank wagons designated for hazardous materials.

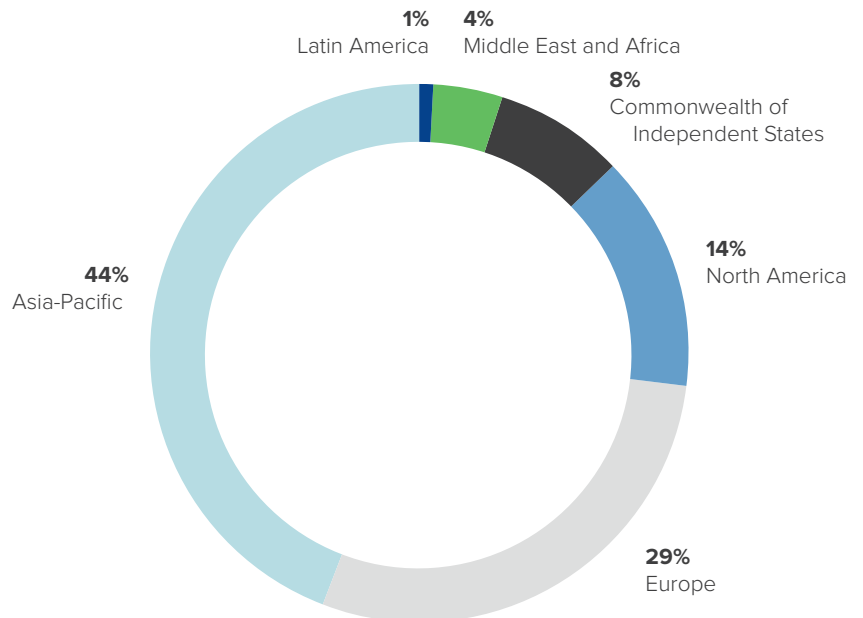
With strong industry tailwinds expected, we anticipate significant interest from both strategic buyers aiming to consolidate their positions and financial buyers seeking entry into the sector. This heightened interest is likely to drive competition for attractive assets and potentially lead to robust deal activity in the near term.

Source: Perspectives for the rolling stock supply in the EU. Research for the TRAN Committee — European Parliament. 2023

Rolling stock compound CAGR estimate (2021–2023)



Global demand for rolling stock (2017–2019)



Sources: Perspectives for the rolling stock supply in the EU, OECD 2023, Minella & Meldebek, 2021 and other market research.



Spotlight

GROWTH THROUGH ACQUISITION

The appeal of railtech

The rail industry has historically lagged behind others when it comes to the implementation of technology. However, recent years have seen a significant shift in focus towards technological advancement within this sector.

The challenge for incumbents is in how to innovate and implement new technologies across their large and diverse operations. The size of these conglomerates hinders their agility when it comes to developing technology internally, resulting in them turning to M&A to obtain technological capabilities.

As such, we observe strong interest in rail technologies from strategic buyers. Conversely, financial buyers are drawn to the indispensable nature of rail transportation although they are also attracted by the increasing momentum behind companies seeking to integrate technology into their operations.

CLOSER LOOK

By analyzing some recent strategic and financial acquisitions, we've identified the strategies behind these transactions and the key value drivers.

Analysis of select strategic acquisitions

SIEMENS

Siemens Mobility, Siemens' transportation division, has a separate Mobility Management unit dedicated to rail technology and intelligent traffic systems.

In June 2023, Siemens Mobility acquired Optrail, an Italian-based technology company that employs PhDs and experts in applied mathematics and software development. Optrail specializes in providing tools for a new generation of optimization-based Traffic Management Systems (TMSs).

In 2021, Union Pacific partnered with Optrail to integrate its Advanced Movement Planner (AMP) technology into its dispatch system. In certain cases, AMP can autonomously resolve potential issues, without requiring intervention from dispatchers.

Following its acquisition, Siemens will now integrate Optrail's technology into the existing TMS of Hacon, which is one of its software units.

In October 2021, Siemens Mobility acquired Sqills for US\$650 million, a SaaS provider of inventory management, reservation and ticketing software.

Siemens' substantial purchase price suggests a recognition of significant synergies. Sqills serves as the industry standard for passenger rail operators, playing a mission-critical role in their processes. By acquiring control over this pivotal aspect of the value chain, Siemens enhances its proximity to and strengthens relationships with major passenger rail operators worldwide. It can leverage this position to its advantage in bids for major rolling stock contracts that are larger in size and more lucrative.



TRINITY INDUSTRIES, INC.

Trinity Industries is an industrial conglomerate that operates Trinity Rail, a provider of railcar services and products, including rolling stock manufacturing, maintenance and leasing.

In March 2023, Trinity Industries acquired RSI Logistics for US\$70 million. RSI Logistics offers software that tracks shipments, manages railcar fleets with automatic reporting, and provides freight bill accounting to its customers. This acquisition added logistics services, terminal operations and intermodal transportation to Trinity's existing technology products.

In May 2022, Trinity Industries acquired Quasar Platform, an end-to-end rail logistics software platform, from Cando Rail & Terminals. The software provides real-time data to freight rail shippers and operators. This acquisition enhanced yard management and activity-based costing, and introduced new data visualization tools to Trinity's existing technology products.

Value drivers when selling to a strategic acquiror

A strategic acquiror must be able to envision integrating the technology of the target into its current operations. Thus, early in the sale process, the seller must clearly articulate the technology's functionality, high-level architecture and other technical aspects.

Furthermore, it's essential to proactively identify the strategic buyer's key objectives and consistently emphasize them during interactions. This is critical for maintaining the buyer's interest level throughout the process.

Analysis of select financial acquisitions



Modaxo is a group dedicated to acquiring software companies in the transportation industry. It's a subsidiary of Constellation Software, a multibillion-dollar company that acquires, manages and builds vertical market software businesses.

In April 2023, Modaxo acquired ExPretio Technologies, a provider of revenue management and customer intelligence solutions for rail and bus operators. ExPretio is based in Montreal, Canada, and serves more than 20 customers throughout Europe and North America, including: Renfe (Spain), ÖBB (Austria), Arriva Trains and Heathrow Express (UK), and Amtrak, the leading North American passenger rail operator.

In February 2021, Modaxo acquired TTG Transportation Technology (TTG), a provider of driver advisory systems that work in real-time traffic situations, helping rail operators to improve energy efficiency, network capacity, schedules and maintenance expenses.

MAIN

CAPITAL PARTNERS

Main Capital Partners is a Netherlands-based private equity group that exclusively invests in software companies in the DACH region, Benelux, the Nordics and the USA.

In June 2023, Main Capital Partners acquired RailCube, an ERP software company that offers full order to cash support including demand planning, capacity planning, asset management and financials.

Value drivers when selling to a financial acquiror

In contrast to strategic buyers, financial buyers, such as private equity groups,

often prioritize evaluating potential returns on investments rather than focusing on strategic rationales for acquisitions.

To assist financial buyers in constructing their investment models, sellers need to provide clearly delineated financial information. This includes separating recurring revenues from one-off implementation revenues and isolating the costs necessary for delivering the solution to customers (for example, server costs, credit card fees, etc.). A company's valuation often hinges on a multiple of its net revenue (recurring revenue minus variable costs).

Given the limited number of rail operators, there will also be a strong emphasis on analyzing each client in this sector, including studying attrition rates and reasons for client departures, as well as examining average revenue per user (ARPU) and monitoring the expansion of client relationships.

Careful preparation before going to market is crucial for putting together materials that will cater to the different interests of both strategic and financial buyers.





THE IMPACT OF EU RAIL LIBERALIZATION ON ROLLING STOCK ACTIVITY

The liberalization of the EU rail sector has unfolded in stages, starting with the full liberalization of the rail freight market in 2007, which extended to international passenger services in 2010, and the deregulation of domestic passenger services under the fourth EU railway package, which was introduced in 2016.

Today, passenger rail liberalization is still underway, with domestic incumbents offering 76% of services. However, commercial operators are gaining ground in markets like Italy and Austria, especially in the long-distance and high-speed segments.

In rail freight transport, domestic incumbents also remain dominant, but their market share is decreasing, and now stands at 55%.

One significant outcome of opening up the rail market to competition is the newfound incentive for companies to pursue strategies that diversify their rolling stock platforms and serve multiple European markets.

This strategy is often facilitated through M&A, allowing companies to broaden their reach and operational efficiency across the continent.

Indeed, we have noticed an increase in transaction activity in the EU, particularly cross-border transactions.

Furthermore, rail liberalization will facilitate the provision of commercial rail services across borders, leading to new entrants providing competitive rail services or actively bidding for rail contracts.

Overall, we expect the liberalization to result in new demand for rolling stock products, services and leasing solutions.

Sources: Ninth Annual Market Monitoring Report. Minella, G. & Meldebek, A. PIRG-Rail, 2021. Rolling stock and infrastructure investors, a sector on track for growth in a post-pandemic world

Recent cross-border, rail-related M&A transactions in the EU

Date	Country	Target	Country	Acquirer
Feb-24				
Dec-23		EXPLORIS S.A.		
Nov-23				
Oct-23		Germany rail business of 		
Oct-23				
Sept-23				

Source: Perspectives for the rolling stock supply in the EU. Research for the TRAN Committee — European Parliament. 2023

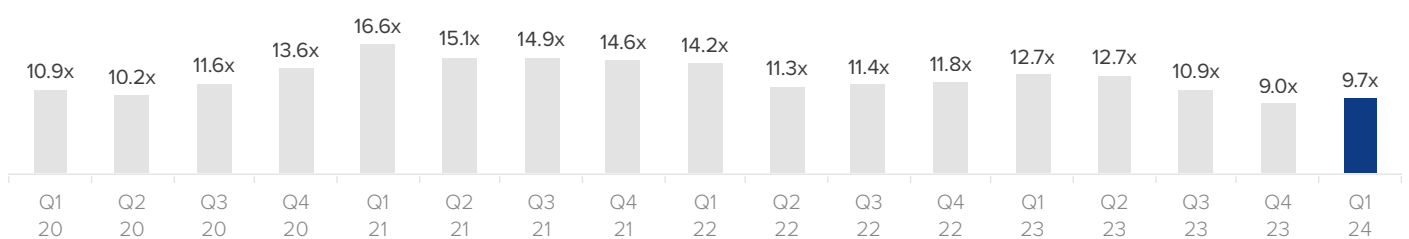
Public comparables

Trading and operating performance figures

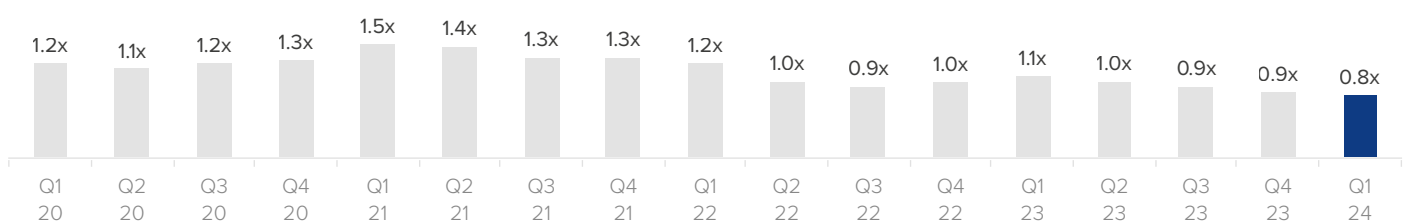
Rail-related manufacturing

Company	Country	Market cap. (US\$m)	Enterprise value	LTM Operating Figures				
				Revenues	5-yr CAGR	EBITDA margin (%)	EV/Revenue	EV/EBITDA
SIEMENS		151,493	198,230	86,339	(1.3%)	15.3%	2.3x	15.0x
CRRC		26,584	23,456	32,417	1.3%	8.8%	0.7x	8.2x
Wabtec CORPORATION		28,754	32,453	9,980	17.3%	19.4%	3.3x	16.8x
KNORR-BREMSE		12,063	12,963	8,886	3.8%	13.4%	1.5x	10.9x
ALSTOM		6,457	11,073	17,890	16.1%	5.3%	0.6x	11.7x
STADLER		3,103	2,695	4,285	12.5%	7.2%	0.6x	8.8x
THE GREENBRIER COMPANIES		1,622	3,343	3,727	7.5%	9.7%	0.9x	9.2x
CAF		1,201	1,573	4,233	13.2%	6.2%	0.4x	6.0x
Talgo		584	917	724	14.9%	10.4%	1.3x	12.2x
vossloh		890	1,169	1,324	7.0%	11.9%	0.9x	7.4x
Mean		23,275	28,787	16,980	9.2%	10.8%	1.2x	10.6x
Median		3,103	3,343	4,285	7.5%	9.7%	0.9x	9.2x

EV/EBITDA historical trends



EV/Revenue historical trends



Source: S&P Global CapIQ, 31 March 2024

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OAKLINS OFFERS A COMPREHENSIVE RANGE OF SERVICES

- M&A advisory (buy- and sell-side)
- Growth equity and equity capital markets advisory
- Debt advisory
- Corporate finance services

Rail rolling stock is one of our focus areas. Combining comprehensive sector knowledge with global execution has led Oaklins to become one of the most experienced M&A advisors in the rail rolling stock sector, with a large network of relevant market players worldwide. This results in the best possible merger, acquisition and divestment opportunities for rail rolling stock companies.

If mergers, acquisitions, or divestitures of businesses or business units are part of your strategy, we would welcome the opportunity to exchange ideas with you.



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Sébastien leads Oaklins' rail rolling stock team and is a managing partner at Oaklins E. Canada. He has been involved in the rail industry for well over 15 years and has built a network of contacts with industry leaders. Sébastien has closed several transactions, such as debt financing, equity financing and acquisitions for CAD Railway Industries, a leading Canadian maintenance, repair and operations service provider focused on the North American rail industry.

United by a strong belief that we can achieve the extraordinary. Oaklins is a global team of 800+ financial advisory professionals in 40 countries providing M&A, growth equity, ECM, debt advisory and corporate finance services to support entrepreneurs, corporates and investors in reaching their goals.

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